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MEMORANDUM FOR: Geza Feketekuty
Office of The United States Trade Representative

FROM : [Redacted]
Chief, Western Europe Division
Office of European Analysis

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SUBJECT : French Thoughts on High Technology Trade and Related Issues

1. Attached is a brief analysis of French thinking on high technology trade. The bottom line is that the French may be more open now than previously to careful, pragmatic arguments in favor of freer trade, but they are unlikely to agree to anything that would prevent their own industrial policy initiatives in that area. [Redacted]

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2. This issue has a relatively short history, and French thinking on the subject is still evolving. [Redacted]

Attachment: as stated

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DIRECTORATE OF INTELLIGENCE

French Thoughts on High Technology Trade and Related IssuesSummary

High technology industrial development is a priority for the Socialists that is supported across a wide spectrum of the policymaking establishment. Trade in high-tech products and processes is a relatively new concern, and the positions of major players are not yet well developed and even less well documented. We conjecture that the position of most groups would be based on an "infant industry" argument that new French producers need help in some form until they can compete with the Americans and Japanese. Given the current concerns of the major policymakers, they may be receptive now to an "effective protection" argument, which emphasizes the need of French firms to import high-technology products in order to modernize and to become more competitive. An argument based on projected growth in major markets may induce the French to make trade concessions necessary to gain access to the more rapidly growing areas. Like their predecessors, the current policymakers will be more receptive to pragmatic arguments for freer trade than to Anglo-Saxon free-trade doctrine or theory.

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This memorandum was prepared for Geza Feketekuty, Senior Assistant, US Trade Representative by [] Western Europe Division, Office of European Analysis, Central Mediterranean Branch. Questions and comments may be referred to [] Chief, Western Europe Division []

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Fundamental Approaches

The original approach of the Socialists to French industry was summarized by the "filierie" (network) concept, which emphasized the development of integrated production networks, beginning with the raw material stage and running through the finished product. This approach, which dominated official French thinking during the first 18 months of the Mitterrand government, is associated primarily with Jean-Pierre Chevenement, the former Minister of Industry and the leader of the Socialist Party's left wing. It was influenced in large part by French perceptions of MITI's success in Japan. [REDACTED]

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A corollary to the "filierie" approach, at least for Chevenement and other Socialist supporters of the concept, is that large nationalized enterprises would be best able to accomplish this mission. Although French protectionism in its most transparent forms probably was not part of the original "vision," successive governments in Paris have used both Common Market trade barriers and the many forms of state "dirigisme" to their advantage. [REDACTED]

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By contrast, the so-called "creneau" (niche) concept aims at finding and developing specific competitive areas or lines in which to develop French industrial capabilities. In contrast to the "filierie" approach, it recognizes the advantages of specializing within industries and the growing importance of intra-industry trade. The Pompidou and Giscard governments generally followed the "creneau" approach. [REDACTED]

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Pragmatic Constraints

These ideas and perhaps an underestimation of French potential and accomplishments probably still characterize the thinking of many Socialists. However, both the unfortunate consequences of early macroeconomic policy and the experience of dealing with the problems of the French economy for two years has induced a more pragmatic, realistic, and modest approach among the major economic policymakers. [REDACTED]

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President Mitterrand, under the tutelage of Finance Minister Delors and new Industry Minister Fabius, is beginning to recognize the limits to what the government can do in support of industry. He has acknowledged that if France is to improve its economic prospects, initiative on the part of enterprises, entrepreneurs, and firms must be encouraged. In Mitterrand's words, "The initiative of entrepreneurs, industrialists, and those who create new firms is decisive ... it is not civil servants who make the economy." In other statements, Mitterrand has referred to getting the government "off people's backs," and has said that the government should only "set the grand outline of economic and industrial strategy." [REDACTED]

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Mitterrand and Fabius also have indicated in more specific ways the importance of small and medium-sized firms. Both have been impressed with the speed and the nature of the American recovery, in particular with the part small and medium-size firms are playing in it. Fabius was impressed with his visit to Silicon Valley in 1982 and the emergence of the many and varied small firms there. Mitterrand has put Silicon Valley on the itinerary for his visit next month. [REDACTED]

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Along with recognizing the limits of what government can do for industry and the importance of entrepreneurship and flexibility in both small and large enterprises, most French policymakers now emphasize the need for profitability and reduced charges and burdens on industry. In an almost Lafferesque statement, President Mitterrand has stated that "too many taxes kill tax revenue." There are even indications that major policymakers have realized that administrative measures reducing a firm's freedom to make labor force decisions also reduce its willingness to expand or take other risks. Other types of bureaucratic obstacles have the same effect. []

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Pro-Trade Arguments

Although the creation of high-tech industry remains a Socialist priority, their concerns recently have centered more on job creation and the modernization of French industry. The Mitterrand government initially required that foreign investment in technological facilities generate technology transfer. The present preoccupations of French economic policymakers suggest they now may be more open to arguments for freer trade in high-tech products and processes. Reminders that import barriers increase domestic producer costs, slow modernization and job creation, and reduce French international competitiveness could be effective. Such arguments would at least put some of the issues in a context that emphasizes French concerns and interest. []

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The French are now entering a recession while the rest of the world is beginning to recover. Having been burned once, the French will be very careful about expanding more rapidly than their major trade partners. Most economic policymakers in France seem resolved to maintain austerity for at least another year. INSEE, the French Statistical and Economic Institute, foresees at least five years of relatively slow growth for the French economy. []

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The traditional increase in protectionist pressure in times of slow growth may be at least partially offset in the French case by the out-of-phase nature of France's recession. With markets for French goods likely to grow more rapidly over the next five to ten years than the French market for imports, the French might be receptive to reminders that protectionism, by encouraging retaliation, could exclude them from rapidly growing foreign markets when French demand is weak. They might realize that during an important period for developing market shares in new products it might be costly to take the time to develop whole production chains rather than draw on all possible sources to increase their productivity in areas where they have an advantage. Reciprocity, in terms of market access, may appeal to the French if they are among the slower growing economies. []

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The Players

The views expressed by Fabius, Delors, and recently by Mitterrand suggest that pragmatic arguments for free trade in high technology may receive a receptive hearing. Edmund Malinvaud (INSEE), Claude Milleron (Prevision), Michel Rocard (Socialist rival to Mitterrand and Minister of Agriculture), and Francois-Xavier Strasse (Elysee economics adviser and writer under the name Jacques Gallus) all have the reputation of being more pro-trade oriented. Jean-Jacques Servan-Schreiber, though not a Socialist, is an adviser to

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Mitterrand and has disagreed strongly with the nationalism and protectionism of Chevenement and the left-wing Socialists. Among those close to the President, Pierre Berégovoy has protectionist leanings; Jacques Attali has made protectionist-sounding statements in the past but has also argued strongly against the "Chevenement option." []

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Pressures on Mitterrand from outside his administration are not well focused. Labor unions, for example, find their strength concentrated in the traditional industries where their main concern is job preservation. If high-tech trade is seen to reduce employment by speeding the modernization of industry through automation or new production techniques, the unions will object. They also are likely to object if high-tech imports are seen to displace production that would take place domestically using union members. These concerns are currently too nebulous to carry much weight, however, and labor unions have little influence in new growth industries such as biotechnology. []

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We have little solid information on the current thinking of such key opposition players as Valéry Giscard d'Estaing, Raymond Barre, and Jacques Chirac. Objectively, they all should see the advantages of trade. Their experience with nuclear energy, arms production, and the Airbus will have informed them of the importance of imported technology; the Concorde experience has made them cautious of politically motivated production programs; and during their terms in government, they all spoke of the limitations of nationalized industry, the importance of small and medium-sized firms, and the necessity of private innovation. Nonetheless, their record on issues such as export credits, targeting, and industrial subsidization indicates they are far from being free-traders. We suspect Chirac, who has been away from hard national economic issues for several years, may be a bit more merchantilist than Barre or Giscard. []

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The EC Option

Developing a Common Market technology initiative appeals to the French. They hope to develop a market for French technological output that will allow them to realize necessary economies of scale while remaining somewhat sheltered from the full force of American and Japanese competition. At the same time, they hope that EC producers can become more competitive in world markets by uniting their resources. The French probably hope that they would be the major Community player if they succeed in this strategy. []

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Fabius is scheduled to meet with his European counterparts in late February. He has indicated that he will push the "ESPRIT" program, which is an effort to develop a joint research and development program, concentrating on electronics. He recognizes the reluctance of several other member countries. He has indicated he will also push for similar joint efforts in biotechnology. []

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The EC option is probably better for the French than an autarchic approach. Nonetheless, the arguments that the French would be putting barriers in front of their own firms by erecting trade barriers is still valid. If joint ventures within the Common Market are encouraged by reducing the

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possibility of forming alliances with American or Japanese firms, European firms will be disadvantaged in world markets. [redacted]

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If economies of scale and distribution networks in high-tech goods encourage joint ventures, then American and Japanese firms may seek partners. If the Europeans are not receptive, they may force the Japanese and Americans to become allies. The suggestion of a de facto Pacific Basin alliance in high-tech production may persuade the French to reconsider any strong EC protectionist policy. [redacted]

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Conclusion

The French do not have a strong free trade tradition and will be influenced more by their own interests than by abstract Anglo-Saxon doctrine such as the "international division of labor." The French might be persuaded to reduce barriers to trade that limit their access to the most up-to-date technology, but they are likely to resist commitments that would severely limit their ability to use non-trade initiatives to obtain their ambitious goals for French high-technology industry. [redacted]

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